NEW JERSEY CASINO CONTROL COMMISSION

ANNUAL REPORT

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Casino Control Commission 1986

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The Annual Report of the New Jersey Casino Control Commission is submitted to the Governor and to the members of the New Jersey Legislature

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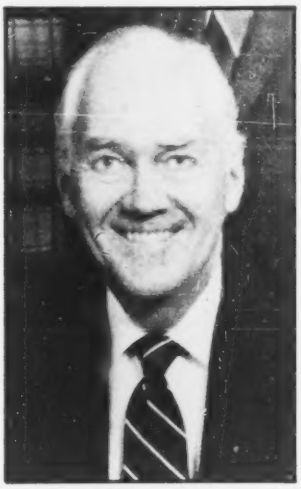
CHAIRMAN'S REPORT



Casino gambling, still shy of its ninth birthday in New Jersey, came of age during 1986 as this growing industry attracted increased interest among the nation's financial houses and brought with it new areas of concern for the Casino Control Commission.

Where only a few short years ago the Commission struggled with licensing enough dealers and cocktail waitresses, today it deals with corporate mergers, hostile takeovers, financial restructuring and the sale of multi-million dollar corporations.

The attempted takeover of Holiday Corp., the parent corporation of Harrah's Marina, and of Bally Manufacturing, the parent of Bally's Park Place, the potential sale of Golden Nugget and the bankruptcy of Atlantis have taken the Commission into waters that were never charted by the drafters of the Casino Control Act.

All these issues which were brought to the fore during 1986 continue to confront the Commission as it heads into 1987 and are likely to remain on the agenda for some years as the growth and health of the casino industry makes it more attractive to investors.

Some of the issues facing the Commission will be resolved by the state Legislature in coming sessions and others will probably be addressed by the courts. Some issues will need to be determined immediately and will be addressed by the Commission itself.

The toughest of the issues which the Commission faced during the past year was the question of whether to grant a license to Atlantis after the company filed for bankruptcy.

In the Atlantis relicensing hearing the Commission came face to face with the question of whether a casino which had filed for bankruptcy could still satisfy the requirement that it demonstrate financial stability.

It was a decision not easily rendered but after a prolonged hearing that included casino operators and bankruptcy law experts, the Commission ruled that there was not necessarily a conflict between the Casino Control Act and the bankruptcy law. In arriving at its decision the Commission was not unmindful of the plight of the employees of Atlantis and fixed extensive conditions to the license, including some to safeguard the rights of the Atlantis staff people.

The Commission's experience with these various problems and concerns during the year led to the drafting of a package of legislative amendments to the Casino Control Act which were presented to state legislators during the year. The amendments began their slow process through the two houses as the year came to an end and hopefully passage will take place early in 1987.

Twice during the year the question of takeovers faced the Commission as Donald Trump, already the holder of two licenses, moved against two other license holders. First, he attempted a takeover of Holiday Inns, parent of Harrah's Marina, but withdrew.

Later in the year he moved against Bally Manufacturing and the matter was still pending at the close of the year. Both actions combined to force the Commission and the Legislature to look more closely at the Casino Control Act.

At a gaming conference in Puerto Rico late in the year I raised the issue by pointing out that the regulatory system must be able to accommodate changes in ownership and transfers of interests in existing casino entities without sacrificing the paramount goals of integrity and public trust.

The failure to deal with today's economic inevitabilities threatens to stifle the growth and development of the industry. It undermines investor and lender confidence and it tends to discourage all but those who have already undergone the lengthy licensing process from considering opportunities to participate in the industry.

In addition to the many financial problems which faced the Commission this past year, we also conducted several involved relicensing hearings which raised some fundamental issues. Some of them raised issues which are likely to be ongoing during 1987.

The Commission awarded a license to Harrah's Marina despite allegations that organized crime figures had participated in a labor settlement several years ago. The Commission ordered the Division of Gaming Enforcement to determine the validity of the allegations and to investigate the actions of Harrah's officials in those labor matters. The issues will be addressed during the coming year.

The Commission also issued a license to Trump's Castle but again with a condition that it work out a settlement with the Department of Transportation and the Department of Environmental Protection in order to alleviate traffic conditions in the Marina section.

Earlier in the year another long and involved hearing centered around the use of two unlicensed representatives by Resorts in its attempts to sell its casino. Although the sale was never consummated, the Commission ordered Resorts to stop doing business with the two agents until such time as they obtained Casino Service Industry licenses.

A fourth long relicensing hearing involved Golden Nugget. The Division of Gaming Enforcement raised concerns about the casino's attempt to hire Mel Harris, son of the late Allie Harris, a former bookmaker and associate of organized crime figures. The Division also raised questions about the laundering of large sums of money by Anthony (Tony Cakes) Castelbuono, alledgedly on behalf of the

Molina Organization, several of whose members have been convicted on drug charges.

During the year the Commission won a major court victory when the Appellate Division of the New Jersey Superior Court ruled in the Commission's favor after the Division of Gaming Enforcement challenged the awarding of a license to Resorts International in 1985.

Although the Division's appeal of the Resorts case drew much newspaper and television attention, the Commission continued to enjoy an excellent relationship with the Division and its new Director, Anthony Parrillo.

During 1986, for example, the Division filed 479 complaints with the Commission to suspend or revoke licenses in the state's continuing effort to preserve and strengthen the integrity of the industry. The suspension, revocations and fines are designed to assure the public the industry is squeaky-clean.

As the year drew to a close the Commission focused more of its staff and its attention on the efforts to open two new casinos in a timely fashion.

Licensing hearings for the new Showboat Hotel Casino began in December in anticipation of a Spring time opening. The new casino hotel which will be located at the Boardwalk and States Avenue will add another 516 rooms to the city's total.

Later in the year the Taj Mahal, the second casino to be owned by Resorts is scheduled to be opened. The most ambitious plan in New Jersey's casino history, it will include more than 1,200 rooms and will be twice as large as the largest casino floor in the United States.

Commission staff met regularly with the management of both facilities to assist them in meeting all the requirements of the Casino Control Act and to help them obtain enough licensed personnel to staff both casino hotels.

The past year was marked by a three-way dialogue between representatives of the casino industry, the legislature and the Commission over the advisability of extending the gaming day to 24 hours from its present 18 hours on weekdays and 20 hours on weekends.

The issue was still unresolved at year's end but is likely to be a major topic in the coming year as the Governor's Advisory Commission on Gambling considers the social and economic impacts of all forms of gambling in New Jersey.

The year was also highlighted by several internal occurrences at the Commission. Our internal Affirmative Action program, augmented by the appointment of Inez Killian in late 1985, showed some very positive signs and holds out great hope for the future.

For example, during the past 12 months we have been able to modify the Commission staff by 15 additional minority members and 14 more females. More important, we have been able to place both minority members and females in professional and management positions.

The Commission was also fortunate this year in obtaining the services of W. David Waters to replace Joel R. Jacobson who resigned as Commissioner in June. While Jacobson's presence will continue to be missed, Commissioner Waters brings to the staff 36 years of executive experience including the highest levels of the United States Internal Revenue Service.

The Commission sustained another loss at the close of the year when Jack Wood, Director of Affirmative Action and Planning for the Commission, retired. Wood had been instrumental in helping the casinos achieve a high level of employment for minorities and females. A search for a successor started immediately.

Although much of the Commission's role in the redevelopment of Atlantic City has been assumed by the Casino Reinvestment Development Authority, the Commission continues to provide assistance in several areas for the new Authority.

It is encouraging to report that the new CRDA has approved its first projects and the long awaited redevelopment of Atlantic City is slowly but surely beginning to take shape. The new projects combined with the two new casinos which are opening and some privately funded projects are signs that the long promised rehabilitation is finally becoming visible.

As the year drew to a close, the industry was providing approximately 40,000 jobs with the promise of another 7,000 to 10,000 before the end of the year 1987. In addition, there are more than 9,000 firms doing more than $1 billion in business with the casino industry. Of that number 3,617 are New Jersey firms and they handle 63.5 percent of the total business.

As 1986 drew to a close, it was obvious from the frenzied activity in the investment community that the casino industry is rapidly maturing and appears headed for another year of solid growth.

The growth of the industry combined with the activities of both private developers and the CRDA indicate that the long promised revitalization is well underway. Add to that formula the tremendous participation by New Jersey firms in the support or service industries plus the huge employment figures and it becomes obvious that the momentum is finally gaining strength.

The coming year, with the opening of the two new casino hotels with almost 2,000 new hotel rooms and the continuing effort on the rail line, the convention center and the efforts to upgrade the airport promise to keep the state on schedule in its plan for the rebirth of Atlantic City.

LEGAL DIVISION

Important issues of law and the increasing demands of corporate restructuring kept the Legal Division under Director Robert J. Genatt busy during the past year.

Several challenges to the Casino Control Act were fought through the courts successfully at the same time that the Commission was dealing with the corporate reshaping of several casino license holders.

In a most significant case, the New Jersey Superior Court, Appellate Division, upheld the Commission's decision in 1985 to renew the casino license of Resorts International Hotel, Inc. This case marked the first time that the Division of Gaming Enforcement had challenged in court a Commission decision to grant a casino license.

Also in 1986, Senior Assistant Counsel Dennis Daly of the Legal Division urged the Appellate Division to uphold the Commission's decision to exclude Lawrence Merlino, Phillip Leonetti and Saul Kane from licensed casino facilities. This was the first instance that a New Jersey court has examined the exclusion list provisions of the Casino Control Act. A decision in these matters is anticipated in early 1987.

The United States District Court in Camden dismissed the merits of a case in which Local 54 of the Hotel and Restaurant Employees and Bartenders International Union challenged the Commission's authority to order the removal of several of the union's officers, agents and principal employees. John R. Zimmerman, who became the new Deputy Director of the Legal Division in 1986, argued the case successfully for the Commission.

Two corporate restructurings involving casino licensees were resolved during 1986. In one instance, the Commission found that Southmark Corporation, a major real estate and financial services company, was suitable to be a holding company of the Sands Hotel and Casino. With this ruling the Sands completed its comprehensive refinancing plan within a year of proposing that Southmark submit itself to the qualification process.

The other major corporate restructuring involving a casino licensee during 1986 saw Donald J. Trump acquire sole control over the Trump Plaza Hotel and Casino. Previously, Mr. Trump and Holiday Inns had shared equally the ownership of that facility. With the assistance of the Legal Division, the Commission approved the transaction and thus the transition to Mr. Trump went smoothly.

Mr. Trump was also involved, through his Trump's Castle Hotel and Casino, in a renewal hearing which focused on the obligation to make roadway improvements in Atlantic City's marina district. The previous year, Mr. Trump acquired his marina casino hotel property from Hilton of New Jersey, Inc., after that company was denied the necessary statement of compliance and as part of that acquisition, Mr. Trump was to fulfill Hilton's obligation to complete the roadway improvements. Since construction did not commence, the Commission, aided by its Legal Division, conducted its first renewal hearing to focus on a casino licensee's compliance with the social and environmental provisions of the Casino Control Act. The Commission renewed the casino license but instructed the Division of Gaming Enforcement to investigate some factual disputes that developed during the hearing. The Commission also ordered the licensee to pursue, before other interested state agencies, approval and implementation of a final plan for roadway improvements.

In another casino licensee matter of note, the Division of Gaming Enforcement asked the Commission to consider whether to renew the casino license of the Golden Nugget after the Golden Nugget had been used as a money laundry by a major narcotics dealer. While the Commission considered this issue as well as others during the hearing, it was most troubled by the Golden Nugget's marketing practices which had the potential to allow possible organized crime infiltration to occur into the highest echelons of casino management. Since the Commission, in consultation with its Legal Division, concluded that this apparent threat had been thwarted, Golden Nugget's license was renewed. However, the Commission imposed stringent conditions, involving changes in the makeup and procedures of the company's board of directors designed to insure the continued integrity of the company and of its casino operations in New Jersey.

The Commission confronted one of the thorniest legal issues to be presented to it when it was asked to renew the casino license of the Atlantis Casino Hotel in 1986. Specifically, the Commission had to address whether the Atlantis, which had filed for bankruptcy protection pursuant to the federal Bankruptcy Code, could nonetheless demonstrate that it satisfied the Casino Control Act's requirements of financial stability, integrity and responsibility. After a lengthy hearing, the Commission found that there is not necessarily a conflict between the Casino Control Act's strict financial requirements and the provisions of the Bankruptcy Code. Based on the facts brought out at the hearing, the Commission renewed Atlantis' casino license, subject to extensive financial conditions designed to insure continued public confidence in casino gaming.

ADMINISTRATION DIVISION

Director Theron (Terry) Schmidt and Deputy Director James Fiandaca oversee all personnel, budget and fiscal, data processing, administrative service and Commission meeting activities.

The Division is participating as a test agency this year under Chief Fiscal Officer Joseph Papp in a state government-wide program to facilitate the flow of contracts for goods and services to the minority and female owned businesses.

The Commission and the Administrative Division is proud that it has been able to award 13 percent of its contracts to qualified New Jersey businesses even though implementation of the new state law didn't begin until late in the fiscal year. The Division plans to continue to expand its pool of qualified minority and female vendors during the coming fiscal year in order to help reach the state mandated goal of 25 percent of all contracts issued.

The contracts issued to minority and female vendors totals $116,602.32 with a 1986 total for business with all vendors at $896,940.89.

As a test agency the Commission under Papp will be involved in establishing a new distributed data processing system which ultimately will provide background information on 60,000 small New Jersey business firms owned by minorities and females. The system has been designed by the New Jersey Educational Computer Network in conjunction with the Department of Commerce and Economic Development.

The Budget and Fiscal Office continues to be responsible for all financial reporting, purchases and payments to vendors and provides all fiscal services necessary for the operation of the Commission. In 1986 the office processed more than 8,500 such documents, a five percent increase over 1985.

The Commission's current budget, drafted by the Fiscal Office in conjunction with the Commission members, was approved by the Legislature at $21.1 million.

The Personnel Office under David Hopkins has been working toward a goal of improving its computer capabilities by becoming linked to the state's Personnel Management and Information System (PMIS). The new hook-up eliminates "hard copy" in personnel transactions and significantly reduces the turn-around time in processing personnel actions.

Equally significant from the Personnel Office viewpoint was the implementation of the new Performance Appraisal Review (PAR) work performance program. The new system is designed to improve the evaluation of employees and should result in improved performance by state employees.

Commission staff has continued to use microcomputers as opposed to large mainframes. The use of microcomputers is the direction that the office of Data Processing and Systems Development under Julian Grauer's direction has taken so as to allow the optimum number of professionals access to state of the art software at minimal cost. The use of microcomputers in addition to being cost effective has proven to increase the delivery of information for the decision making process and provides the necessary flexibility in computer equipment.

In order to enhance data processing resources and rearrange some of the larger contracted computer applications, while improving cost effectiveness, the Commission has acquired a minicomputer. The minicomputer will be used for several important in-house projects such as the cost distribution system and the personal history system.

Future computer applications and systems development will involve the use of the microcomputers as well as the new minicomputer. This equipment provides the needed resources at an inexpensive price.

The General Administrative Services Office, under the direction of Don McKeon, provided the primary administrative support for 51 open meetings, 12 license hearings which took place over a period of 40 days and 3 special meetings of the Commission. As custodian of the official records of the Executive Secretary, this office responded to over 350 requests for documents and other information releasable to the public under the Freedom of Information Act. This Unit processes all changes to Commission regulations into the New Jersey Administrative Code and provides copies of these on a subscription basis.

The General Administrative Services Office is also responsible for fleet management, telecommunications and facilities management.

LICENSE DIVISION

The License Division, under Director Christopher D. Storcella and Deputy Director Richard P. Franz, carried out its ever increasing responsibilities as two more casino hotels prepared to come on line with approximately 7,000 to 10,000 new employees and a concurrent increase in the number of contractors and suppliers doing business with the casino industry.

Construction work continued on two new casino hotel facilities, Atlantic City Showboat and Resorts' Taj Mahal, both located on the Uptown Urban Renewal Tract and scheduled to open during 1987.

While the opening of the two new casino hotels attracted major attention, other major casino-related construction projects continued in 1986. Harrah's Marina, Golden Nugget and Claridge casino expansions were completed, as was the Tropicana Transportation Center. Construction work associated with the Bally and Tropicana expansions and the Trump Transportation Center continued.

In addition to these major elements of construction, 11 casino license facility renewal reports and 128 casino and alcoholic beverage license amendment authorization letters were processed by the License Division.

To increase the License Division efficiency, the Alcoholic Beverage Unit was merged into the Facilities Review Section during the year. This internal reorganization has streamlined the petition

approval process by substantially reducing the number of copies of petitions and exhibits that are required to be filed by casino licensees. Additional modifications to the casino and alcoholic beverage license amendment approval process will be proposed in 1987 to simplify further the filing requirements and establish approval time frames.

The Employee License Bureau processed 11,662 applications last year for employee licenses and registrations. Due to its expanded computer capabilities, all facets of employee licensing have become more efficient. The employee license renewal process, in particular, has seen a substantial increase in operating efficiency. For example, in 1986, the Bureau mailed approximately 13,000 renewal applications compared to about 9,200 in 1985.

The License Division during 1986 cut the average amount of time required to issue an initial employee gaming license to approximately 3 to 4 months. Hotel registrations are now issued within three days.

The Bureau has also experienced an increase in the number of applications submitted on behalf of participants in the Jobs Training Partnership Act (JTPA). The JTPA program provides training and placement assistance to unemployed and underemployed individuals and the Bureau has cooperated with the JTPA's efforts in accepting and processing applications. In 1985, the Bureau received approximately 940 applications from JTPA and in 1986 the number had risen to approximately 1,680. The results of this program have been especially gratifying in some of the southern counties where historically there has been high unemployment.

At the end of 1986, there were approximately 40,000 employees in the 11 operating casino hotels. In addition to processing the license or registration applications of persons seeking employment in the industry, the Bureau is responsible for monitoring employment for compliance with pertinent sections of the Casino Control Act and regulations. This responsibility significantly increases each time a new casino hotel commences operations and requires thorough knowledge of each casino hotel's organizational structure and personnel practices.

The Bureau staff was actively involved in developing the regulations pertaining to jobs compendium submission which were adopted in 1986. The Bureau also participated in the preparation of the regulations pertaining to the implementation of minibaccarat and later the Bureau staff processed 50 applications for additional endorsements in this game.

A primary responsibility of the Enterprise License Bureau is to monitor business relationships between the 11 casino hotels and the 9,000-plus enterprises with which they transact business. The Bureau reviews casino licensees' administrative procedures regarding vendor registration, purchasing and disbursing functions, the analysis of payments by

Casino Service Industry Volume of Business, 1986

	Total Companies	Percent of Total Companies	Dollar Volume of Business[1]	Percent of Total Business
All Enterprises on Master Vendors List	9,024	100%	$1,095,195,699	100%
New Jersey Enterprises[2]	3,617	40.08%	$ 695,731,736	63.53%
Pennsylvania Enterprises	1,328	14.72%	$ 107,029,935	9.77%
New York Enterprises	1,545	17.12%	$ 83,081,681	7.59%
Delaware Enterprises	38	.42%	$ 440,660	.04%
All Other States	2,413	26.74%	$ 206,359,747	18.84%
Foreign Enterprises	84	.93%	$ 2,551,940	.23%

[1]"Dollar Volume of Business" represents only those monies paid by casino licensees for goods or services. This figure does not include such payments as governmental taxes, fines and fees to the Casino Control Commission, charitable contributions, guest losses or court garnishments.

[2]Numbers reflect the states in which the offices serving hotel/casinos are located and may not be the states in which the enterprises are incorporated or have a home office.

	Total Companies	Percent of Total Companies	Dollar Volume of Business	Percent of Total Business
New Jersey Enterprises	3,617	100%	695,731,736	100%
Atlantic	1,642	45.4%	501,168,654	72.03%
Bergen	209	5.78%	15,677,234	2.25%
Burlington	196	5.42%	14,882,930	2.14%
Camden	376	10.4%	24,656,626	3.54%
Cape May	132	3.65%	5,661,071	.81%
Cumberland	104	2.88%	4,880,845	.7%
Essex	128	3.54%	69,380,928	9.97%
Gloucester	82	2.27%	2,291,503	.33%
Hudson	59	1.63%	11,394,124	1.64%
Hunterdon	8	.22%	39,091	.01%
Mercer	75	2.07%	10,718,025	1.54%
Middlesex	107	2.96%	1,994,146	.29%
Monmouth	117	3.23%	12,486,098	1.79%
Morris	70	1.94%	5,980,695	.86%
Ocean	97	2.68%	2,305,698	.33%
Passaic	56	1.55%	2,738,185	.39%
Salem	7	.19%	258,035	.04%
Somerset	35	.97%	806,863	.12%
Sussex	4	.11%	3,205	.0005%
Union	106	2.93%	8,444,827	1.21%
Warren	5	.14%	22,953	.0033%

casino licensees to enterprises and the review of contracts between enterprises and casino licensees.

Based upon the analysis of these business relationships, the Bureau is able to identify for the Commission those enterprises which are subject to licensure under the Casino Control Act. The Bureau provides technical assistance to enterprises which file applications and coordinates license reports for the Commission. These include enterprises which manufacture, distribute and service gaming equipment, gaming schools and enterprises which provide nongaming related goods or services to casino licensees. In addition, the Bureau processes applications from junket enterprises seeking the Commission's approval to begin transacting business through the temporary and plenary licensing procedures.

Of significant importance during 1986 was the progress of the Enterprise License Bureau's on-line data processing system. The final development stage has been reached, this being the production of a number of statistical and managerial reports. These reports permit the Bureau to identify quickly the status of enterprises and their qualifiers and to identify certain trends with respect to suppliers transacting business with casino licensees.

Overburdened by a growing volume of mail, the Document Control Unit scrapped its former system and installed a computerized system to handle the 1,222 petitions, 1,365 casino employee registrations and the 1,765 corporate file updates it received in 1986.

The use of this advanced technology in the treatment of employee applicants, casino vendors and casino hotel corporate filings has resulted in a more efficient and cost effective operation.

To illustrate, when compared with 1985, a 20 percent increase in the number of casino hotel employee registrations and a concurrent increase of 10 percent for other petitions were processed with existing staff within the mandated time constraints. Additionally, casino hotel corporate filing updates received in 1986 increased by 33 percent when compared to 1985 filings.

To further increase the responsiveness of the Document Control Unit, an electronic mail receipt and distribution system was developed and implemented to replace the time consuming manual system. This system handles the daily receipt, time stamping, logging and distribution of all incoming mail from U.S. Postal deliveries, interoffice and interagency mail and casino hotel couriers. The program identifies the sender, recipient, subject matter and date received and allows summary reports to be generated daily, weekly, or on an as-needed basis.

On a typical day, this unit receives and processes approximately 225 pieces of mail. Further expansion of this system is anticipated in 1987 to include the categorization and cataloguing of all other documents and submissions received by the Document Control Unit.

DIVISION OF FINANCIAL EVALUATION & CONTROL

The past year presented many new challenges to the Division of Financial Evaluation and Control as it continued to regulate the unique technical/operational aspects of casino hotel operations and respond to the intricate financial issues facing the Commission.

In conjunction with other Commission personnel, the Financial Division under Director William H. Delaney and Deputy Directors Deno R. Marino and John H. Trzaka, helped to carry out the Commission's mandate to preserve the integrity of New Jersey's casino gaming business.

During 1986 the Accounting Unit, under Teresa B. Gervasio, developed a computer-based accounting system for handling accounts receivable and billings. After a thorough review of its operating procedures, a decision was made to computerize most of the Accounting Unit's manual operations. These operations are now being converted to the Commission's new minicomputer with the assistance of the Commission's Data Processing and Systems Development Unit. It is anticipated that this new system, designed to provide more economical and timely processing of high-volume accounting transactions and maintenance of large data bases, will be ready for parallel testing during the first quarter of 1987 and in full operation by July 1, 1987.

In addition to computerizing its accounts receivable and billing system, the Accounting Unit used microcomputers to revise the monthly statements related to the Casino Control Fund. The new format analyzes the revenue source by billing category as well as by casino and provides an analysis of Commission professional time and the generation of billable fees by Commission cost center. These reports provide management with additional insight into the utilization of staff in relation to revenue generation.

For the Fiscal Year 1986, the Accounting Unit was responsible for the assessment and collection of $34.7 million in fees from casinos, service industries, and employees and the collection of gross revenue taxes totaling $176.7 million. The fees are net of a $9.3 million credit issued to casino licensees to distribute the positive fund balance as of June 30, 1985. During 1986, this Unit has put into place monitoring procedures to match revenues more accurately with expenses so that the Casino Control Fund balance is maintained at a modest level. At fiscal year ended June 30, 1986, its balance was only $26,300. This action will aid the cash flow of each casino hotel.

The Financial Division was instrumental in numerous regulatory changes considered by the Commission during 1986. Its Casino Accounting and Operations Unit and its Inspection Unit drafted the necessary rules and regulations to implement the game of minibaccarat in New Jersey's casinos. Many submissions had to be evlauated in order for this new game to be introduced. Staff analyzed new table layouts, rules of the games,

internal controls and dealer training. In December 1986, minibaccarat was offered for the first time in New Jersey at Caesars Atlantic City.

In addition, during 1986 the Casino Accounting and Operations Unit's resources, under Patricia M. DiFlorio, were devoted to the review and analysis of petitions and submissions related to accounting and internal controls, gaming rules and equipment. The Unit approved approximately 1,400 such petitions and submissions during the year.

Several casino floor expansions and reconfigurations also demanded the attention of the Financial Division in 1986. The Casino Accounting and Operations Unit and the Inspection Unit provided assistance to licensees during the development and refinement of their expansion plans. The final reviews to ensure that the casinos satisfied the Commission's regulatory requirements were performed by the Casino Accounting and Operations Unit prior to granting the necessary approvals. The Financial Evaluation Unit also prepared comprehensive analyses of the financial impact of all casino floor changes for the Commission.

The Financial Division's expertise was also sought during the development of statutory amendments that enable casinos to offer merchandise and other things of value in addition to the standard slot machine jackpot payout. These amendments provide that such payouts must have a cash equivalent value of at least $5,000 and that the value cannot be considered part of the total winnings paid out to patrons for purposes of determining gross revenue nor included in determining the 83 percent minimum payout requirement pursuant to the Casino Control Act. It is expected that the jackpot regulatory changes, which were published in the *New Jersey Register*, will be adopted by the Commission during the first quarter of 1987.

The Commission's financial staff assisted the Legal Division with proposed statutory amendments that will reduce the industry's alcoholic beverage fees. This regulatory change will replace the flat $5,000 fee charged to casinos for each alcoholic beverage location with actual professional time spent on such activities at the Commission's prevailing hourly rate. This amendment proposal was published in the *New Jersey Register* in December 1986 for adoption by the Commission during the first part of 1987. The net financial impact will be a saving of approximately $1,000,000 in the industry's alcoholic beverage fees.

During 1986, the expertise of the Financial Division's Financial Evaluation Unit was utilized by the State Legislature during its evaluation of the industry's proposal for 24-hour gaming. The unit, under Glenn Simpson, assisted the Commission in providing the Legislature with comprehensive financial forecasts and impact analyses of this proposal. Additionally, the Financial Evaluation Unit initiated the preparation of quarterly reports for the State Treasurer on the casinos financial obligations to the Casino Reinvestment Development Authority.

The continuing development and refinement of the Commission's computerized financial database on casino hotel activities represented another facet of the Financial Evaluation Unit's 1986 accomplishments. The most significant achievement was gaining the ability to move select information from the database onto desktop personal computers. In addition, the Unit's financial analysts completed the plans for adding the industry's quarterly and annual financial filings into the database. Throughout the year, the Financial Evaluation Unit also devoted time to several special projects, such as analyzing the financial issues related to Donald Trump's buyout of Holiday Corporation's 50 percent interest in Trump's Plaza in May 1986.

Throughout 1986 the Financial Division was actively involved in the evaluation and review of numerous operational and financial areas for the two new casinos that are expected to open in 1987 pending final Commission approval. For example, submissions related to facility, gaming equipment, casino employee training, accounting and operating systems and financial reporting formats were reviewed to prepare for Showboat's anticipated opening in early 1987. The Financial Evaluation Unit prepared an in-depth report to the Commission analyzing Showboat's financial stability and responsibility, business ability, and casino experience. The Casino Accounting and Operations Unit also began reviewing preliminary proposals for the second Resorts facility, the Taj Mahal. The opening of these two new casinos and work related to the completion of casino expansion projects begun at other casino properties will continue to be major tasks of the Financial Division in 1987.

In order for the Casino Accounting and Operations Unit to coordinate the review and approval of an ever increasing number of submissions in a timely manner, a sophisticated computer tracking system was developed and implemented during the year. In addition to providing a more efficient method of documenting all of the Unit's incoming and outgoing mail (including submissions and petitions), this computer system was designed to index correspondence, by topic, in order to generate valuable historical data for quick and easy reference.

The Inspection Unit, under David F. Mullane, continued to monitor all gaming related activities by having an average of four inspectors present during each eight hour shift in each casino every day of the year. Inspectors served the industry with any necessary violation notices, primarily on internal controls, gaming equipment and rules of the games. In addition, the Inspection Unit handled a variety of formal and informal

casino patron complaints related to table game or slot machine payoffs, and bus coupon disputes.

Providing information to casino personnel and the public also commanded the Inspection staff's attention throughout 1986. Inspectors responded to over 700 requests from Atlantic City's 11 casino operators on matters ranging from the approval of gaming equipment modifications to allowing visitors in certain restricted areas. The Inspection Unit also answered numerous questions from casino personnel and the public concerning existing regulations, regulatory changes, and gaming procedures throughout the year.

In January 1986, the Financial Division's Audit Unit implemented revised auditing procedures. An expansion of the Inspection Unit's internal control responsibilities enabled the Audit Unit to review transactions affecting the current year's gross revenue taxes. As a result of these new procedures and the Audit Unit's computerization of several audit tasks during 1986, gross revenue audits will be completed in a more efficient and timely manner. The Audit Unit, under the supervision of Michael Wozniak, expects to release the reports on the 1986 gross revenue taxes reported by the 11 operating casinos during the Spring of 1987.

AFFIRMATIVE ACTION & PLANNING DIVISION

The Affirmative Action and Planning Division under Director Jack E. Wood consists of three units which were actively involved during 1986 in evaluating the efforts of the casino hotel industry with respect to compliance with equal employment opportunity and affirmative action regulations and assisting the Commission in assessing the impact of casino gaming on Atlantic City and its surrounding region.

The Operations and Construction Units are responsible for monitoring and evaluating the work force performance of the casino industry, its construction contractors and casino service industries with respect to compliance with the equal employment opportunity and affirmative action provisions of the Casino Control Act and Commission regulations.

This was the fifth year that the Operations Unit under Claire Frank provided the Commission with a comprehensive analysis and documentation of the affirmative action performance of the industry's eleven casino hotels. By the close of the year, the industry employed 37,251 workers of whom 17,167 (46%) were females and 12,589 (34%) were minorities.

Of the industry's 5,363 dealers, 2,051 (38%) were females and 1,484 (28%) were minorities. Of 9,273 casino hotel employees earning in excess of $25,000 per year, 2,694 (29%) were females and 1,577 (17%) were minorities.

While these figures reflect some improvement in minority representation over those of 1985, the ratio for females in the work force remains the same while that for female dealers declined slightly. The Unit plans to push for continued progress in the compliance statistics in the coming year.

Late this year, the Operations Unit intensified its monitoring function by cross checking self-reported casino hotel statistics with information provided by the Commission's computerized employee license file. The ongoing verification process focuses on confirming levels of female and minority representation in the top EEO job category of officials and managers.

The Construction Unit headed by Marvin Askins was actively involved in monitoring the construction work force performance at the Resorts' Taj Mahal and Showboat construction projects as well as numerous renovation and expansion projects at the existing casino hotels during 1986. Analysis of the aggregate industry wide construction trade work force at the year's end indicates that minorities represented 13 percent of the construction work force (an increase of one point over last year), while females represented only one percent of the skilled construction work force.

The Division's Planning Unit headed by Barbara Lampen is responsible for assisting the Commission in evaluating the impacts related to the development of casino hotels and related facilities on Atlantic City and its surrounding region. The Unit is responsible for reviewing impact statements, required of each casino licensee by Section 84(e) of the Act, which analyze the effect of the casino hotel facility on the overall environment.

Of particular concern to the Planning Unit during 1986 were transportation related developments by casino licensees. The Unit participated in reviews of the Sands new porte cochere, the Trump Plaza transportation center, the proposed Marina District highway improvements and the Route 30 to Urban Renewal Tract access study being prepared by the New Jersey Departments of Transportation and Environmental Protection in cooperation with Resorts and Showboat.

Equally significant to the Commission were Planning's review of impacts created by the casinos upon housing conditions in the region and the acquisition and disposition of property. A review of Resorts' Taj Mahal development for a statement of compliance indicated the possibility of adverse impacts by that development on the adjacent Best of Life Park, a senior citizen residential complex. Under Commission direction, Resorts proposed a mitigation package which was presented to the Best of Life residents for their approval. Commission approval of the property disposition regulation allowed the Unit to acquire information regarding casinos' property acquisitions and demolition of structures in Atlantic City in a timely manner.

The Division of Affirmative Action and Planning has been involved in monitoring the industry's efforts to strengthen

minority business enterprise (MBE) and women's business enterprise (WBE) participation in the casino hotel industry since 1982. Under a voluntary agreement endorsed by the then nine member industry, the casino hotels pledged to ensure that 15 percent of their total outlay for goods and services would be awarded to minority firms.

However, the Division's monitoring efforts during subsequent years revealed that the industry continued to fall short of the 15 percent goal. The highest annual ratio of MBE participation approached only one percent during the period.

Through the intensive efforts of the Commission and minority interest groups, the New Jersey State Legislature passed legislation designed to require casino hotels to meet certain ratios of MBE and WBE participation as a condition of their licenses. Assembly Bill 4351 was approved in both houses of the legislature and was signed into law by Governor Kean on January 21, 1986. It is expected to be implemented by the Division of Affirmative Action and Planning in 1987.

In preparation for that, Affirmative Action staff have participated in the Governor's Conference on Minority Business Enterprise Development and a round of discussions with Atlantic City's Minority Business Development Office during 1986. Future plans include an outreach program to both the minority and women's business communities as well as to the casino hotels, to provide technical assistance and explain program implementation.

Casino Hotel Industry Employment Levels as of December 31, 1986

Job Category	Total Employees	Female Employees		Minority Employees	
Officials & Managers	7,008	2,598	37%	1,327	19%
Professionals	6,509	2,602	40%	1,701	26%
Technicians	824	170	21%	126	15%
Salesworkers	373	289	77%	114	31%
Office & Clericals	6,061	4,695	77%	2,187	36%
Craftpersons	1,063	103	10%	205	19%
Operatives	1,165	325	28%	352	30%
Laborers	1,954	720	37%	1,359	70%
Service Workers	12,294	5,665	46%	5,218	42%
TOTAL	37,251	17,167	46%	12,589	34%

Governor Appoints New Commissioner

W. David Waters became a member of the Commission on October 20, 1986 following his nomination by Governor Thomas H. Kean.

Commissioner Waters replaced Joel R. Jacobson who resigned earlier in the year to accept a court-appointed position as trustee of Teamster Local 560.

Waters, a resident of Cherry Hill, had retired in December 1985 after 38 years of service with the Internal Revenue Service. He was Regional Commissioner for the eastern states with offices in Philadelphia at the time of his retirement.

The new commissioner is a Democrat and a long time resident of Camden. He is a graduate of Camden High School and Temple University where he received his undergraduate and graduate degrees.

CASINO REVENUE FUND

During 1986 the state collected $181,059,009 for the Casino Revenue Fund to be used to underwrite the cost of programs to assist New Jersey's senior citizens and disabled persons.

The $181 million figure represented a 7.4 percent increase compared with 1985 and brought the amount which the state has realized since the first casino opened in 1978 to $962,107,650 in taxes plus an additional $27,886,568 in interest.

The 11 operating casinos are taxed at a rate of eight percent of their gross revenues or "win" which is the amount which the casinos retain after all bets have been paid off but before their operating costs are paid. The money is deposited in an interest bearing account in the Treasury Department which administers the Fund.

The Fund must be used in accordance with the 1976 Constitutional mandate to finance programs for senior citizens and disabled persons. The programs, which are authorized by the state Legislature, include real estate property tax rebates, utility payments, pharmaceutical assistance, transportation aid, boarding home assistance and other programs.

The largest expenditure during Fiscal 86 was $66.5 million for utility payments for senior citizens with low income. Single persons with income levels under $13,250 or married couples with income under $16,250 are eligible for the program.

The Fund also provided $33.6 million to assist the elderly and disabled to pay for drugs and prescription medicines.

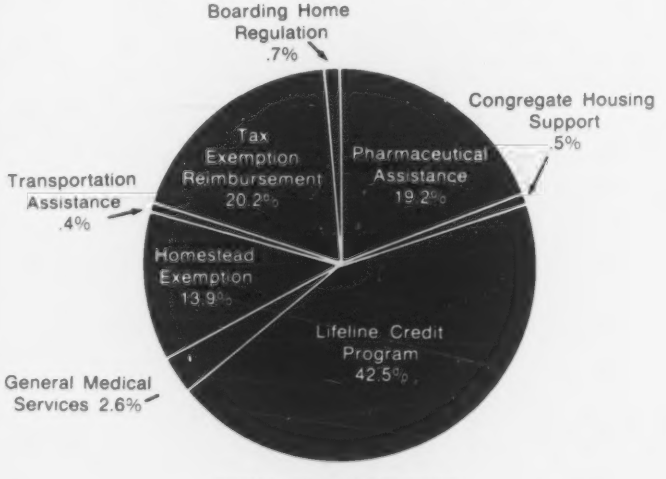
In addition, the Fund also provided $17.9 million to underwrite the real estate tax rebates paid to low income senior citizens and disabled persons.

The state also used the Casino Revenue Fund to pay $5.4 million for boarding home regulation and assistance; $3.2 million to underwrite transportation costs and $1.2 million for general medical services for the aged and disabled.

None of the Casino Revenue Fund is used to underwrite the state's costs for regulating the casino industry. All costs for regulating the casinos come from the industry and none of the costs are paid out of the general fund of the state.

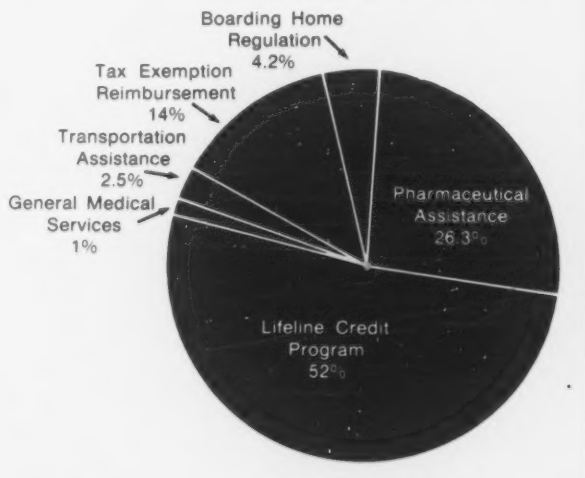
Cost of administering the Casino Revenue Fund is approximately three percent and comes out of the Fund itself.

Casino Revenue Fund Disbursements
July 1, 1984 through June 30, 1985



TOTAL DISBURSEMENTS
$148.6 MILLION

Casino Revenue Fund Disbursements
July 1, 1985 through June 30, 1986



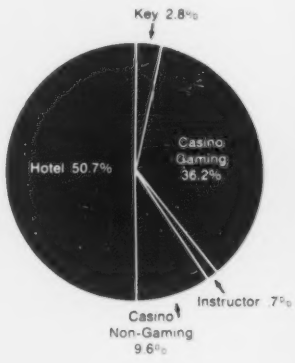
TOTAL DISBURSEMENTS
$128.0 MILLION

Statistics

Enterprise License Bureau Statistics
Casino Service Industries

	1/1/86 to 12/31/86		Inception to 12/31/86
Enterprises permitted to conduct business with casino licensees	3,175		16,644
Enterprises prohibited from conducting business with casino licensees	57		393
Contracts reviewed	1,133		10,608
Gaming Related:			
Applicants	11		120
Licenses Issued	2		38
Licenses Denied	1		10
Withdrawals Granted	6		19
Licenses Active		21	
Non-Gaming Related:			
Applicants	250		2,187
Licenses Issued	79		985
Licenses Denied	11		76
Withdrawals Granted	22		237
Licenses Active		616	
Exemption requests received	13		146
Exemption requests accepted for filing	13		92
Exemptions granted by CCC	3		14

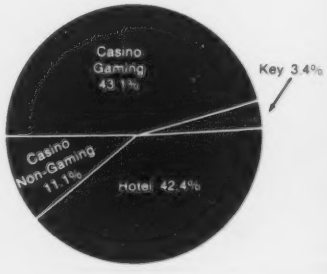
EMPLOYEE APPLICATIONS BY CATEGORY 1986



Junket Enterprises

	1/1/86 to 12/31/86	Inception to 12/31/86
Junket Enterprises:		
Applicants	16	222
Licenses Issued	22	137
Licenses Denied	5	11
Licenses Withdrawn	8	15

EMPLOYMENT BY LICENSE CATEGORY 1986



Gaming Schools

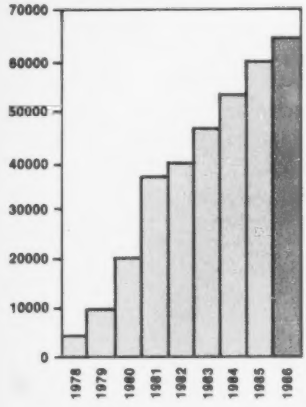
Applications Filed	0	17
Schools Licensed	2	10
Currently Operating	3	

Labor Organizations

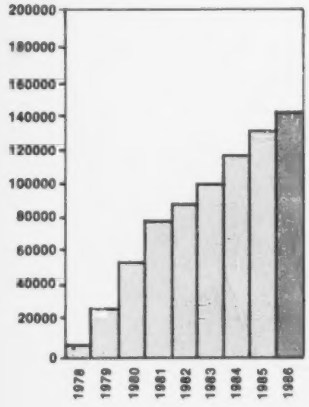
Registered	1	16

EMPLOYEES BY LOCATION 1986

Employee Initial License Issued 1978 Through 1986



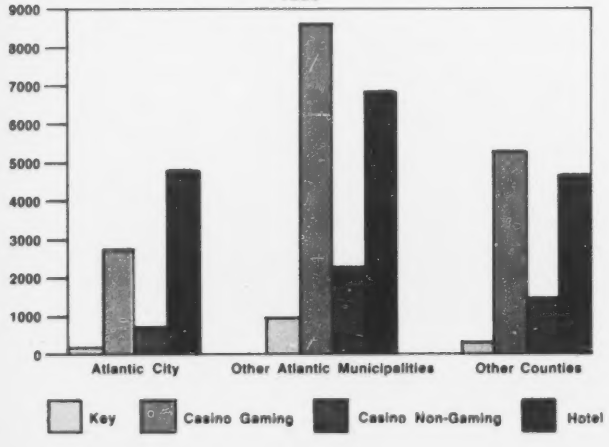
Employee Applications Accepted 1978 Through 1986



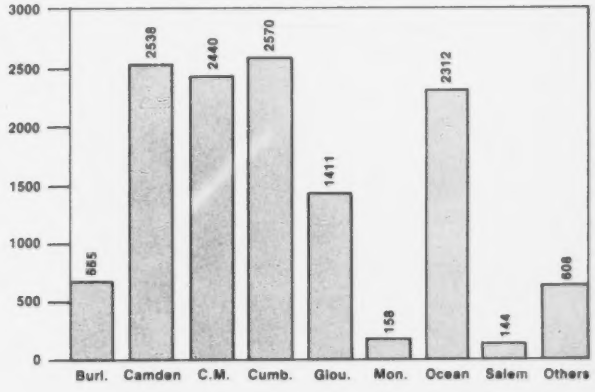
Employee Licenses

	1/1/86 to 12/31/86	Inception to 12/31/86
Casino Key Employees:		
Applications filed	343	3,913
Licenses issued	228	3,316
Temporary licenses issued	216	1,236
Casino Employees:		
Applications filed	5,287	64,317
Licenses issued	5,897	61,815
Temporary non-gaming licenses issued	893	6,551
Temporary junket representative licenses issued	117	735
Temporary sole owner/operator junket enterprise licenses issued	160	710
Gaming School Employees:		
Applications filed	73	1,041
Licenses issued	53	854
Temporary licenses issued	14	85
Casino Hotel Employees:		
License & registration applications filed	5,959	71,126
Licenses & registrations issued	5,959	71,021
Total Employees:		
Applications filed	11,662	140,397
Plenary licenses & hotel registrations issued	12,137	137,006
Temporary licenses issued	1,400	9,317
Position additions processed	3,133	33,123
Employee license renewals processed	5,784	67,423

Residence of Employees 1986



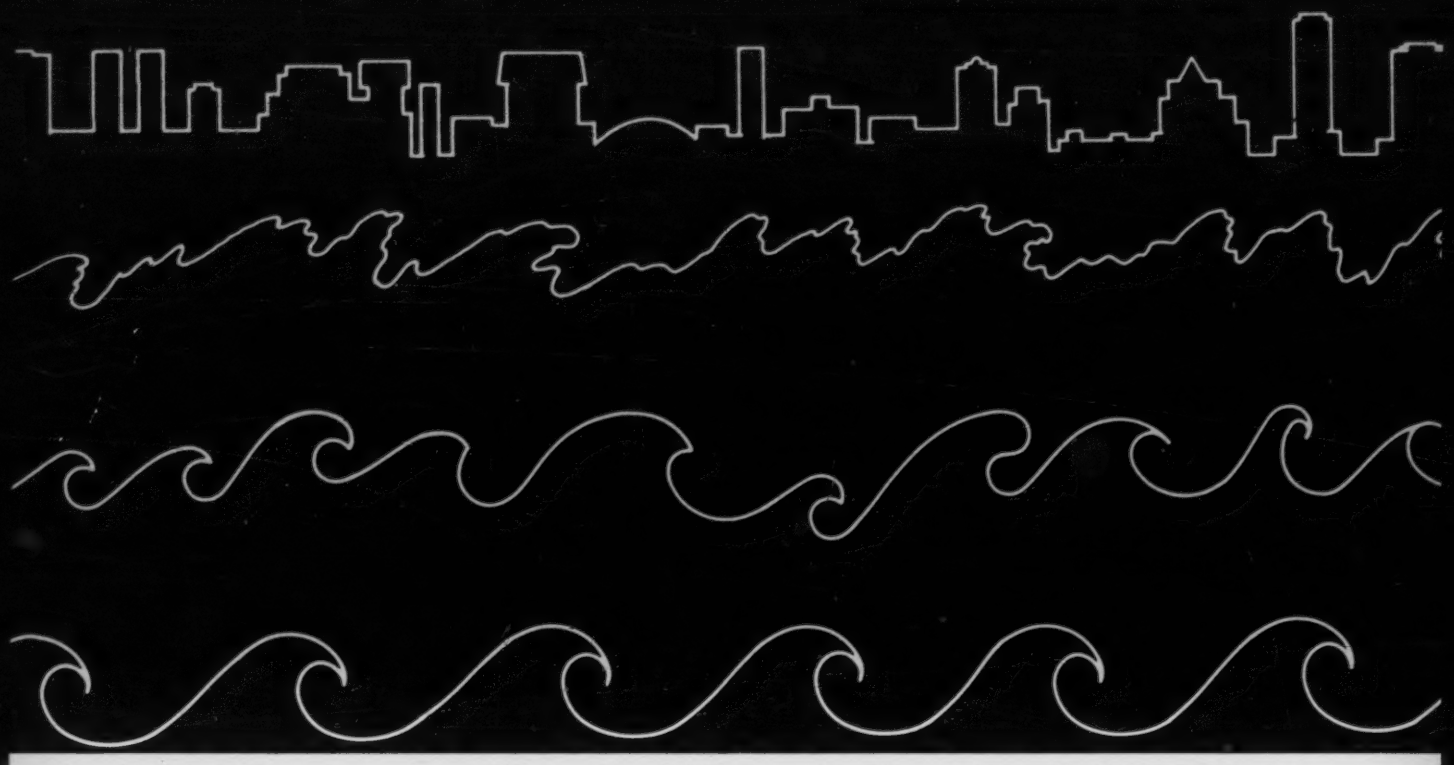
Employees Residing Outside Atlantic County 1986



The New Jersey Casino Industry Facility Statistics at December 31, 1986 and 1985

	Atlantis		Bally		Caesars		Castle		Claridge	
	1986	1985	**1986**	1985	**1986**	1985	**1986**	1985	**1986**	1985
Table Games:										
Blackjack	**60**	61	**78**	76	**70**	72	**74**	74	**60**	48
Craps	**16**	16	**22**	22	**24**	24	**24**	24	**14**	12
Roulette	**9**	9	**12**	12	**11**	11	**12**	12	**8**	6
Big Six	**3**	3	**4**	4	**4**	4	**4**	4	**2**	2
Baccarat	**2**	3	**2**	3	**5**	4	**3**	3	**1**	2
Total Table Games	**90**	92	**118**	117	**114**	114	**117**	117	**85**	70
Slot Machines:										
.05 slot machines	**171**	66	**132**	130	**80**	86	**98**	97	**107**	51
.25 slot machines	**842**	835	**939**	1,004	**883**	906	**1,001**	1,040	**775**	586
$1 slot machines	**92**	110	**180**	200	**162**	162	**228**	228	**154**	144
Other slot machines[a]	**290**	309	**345**	262	**475**	444	**357**	319	**238**	203
Total Slot Machines	**1,395**	1,320	**1,596**	1,596	**1,600**	1,598	**1,684**	1,684	**1,274**	984
Casino Square Footage	**50,544**	50,709	**59,439**	59,439	**59,296**	59,296	**60,000**	60,000	**42,817**	33,752
Number of Hotel Rooms	**500**	500	**510**	510	**641**	641	**607**	605	**501**	504
Convention Space Square Footage	**30,727**	26,255	**49,035**	35,994	**26,364**	26,364	**28,344**	27,961	**26,594**	23,628
Number of Parking Spaces	**1,462**	1,736	**930**	982	**1,344**	1,310	**2,866**	2,866	**1,323**	636
Number of Theatre Seats	**850**	850	**380**	310	**1,050**	1,000	**462**	454	**600**	558
Number of Restaurants	**5**	5	**10**	10	**12**	11	**12**	7	**8**	8
Fixed Asset Investment[b] (Millions)	**$183.3**	$180.7	**$432.9**	$408.9	**$281.0**	$269.5	**$336.9**	$322.4	**$10.4**	$8.2[c]
Number of Employees	**2,595**	2,862	**3,480**	3,455	**3,672**	3,601	**3,932**	3,801	**2,375**	2,195

[a]Includes all other slot machines.
[b]Represents property and equipment before accumulated depreciation as reported by each casino licensee.
[c]Fixed asset investment for Claridge at December 31, 1985 and 1986, only includes gaming equipment because Claridge at Park Place, Incorporated leases its property and equipment as a result of a sale and refinancing agreement.
[d]Fixed asset investment for Tropicana at December 31, 1985 and 1986 does not include the building and certain non-gaming assets because Adamar of New Jersey, Inc. leases these assets as a result of a sale and leaseback transaction.

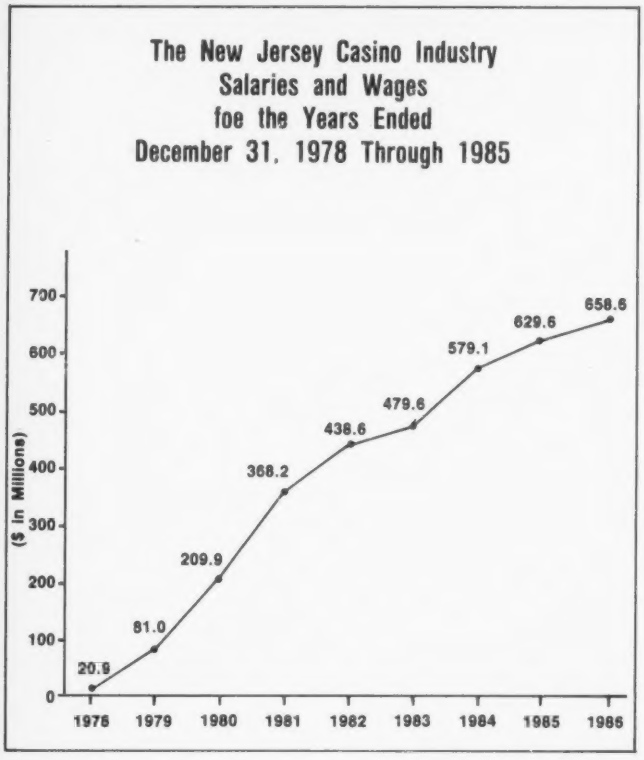


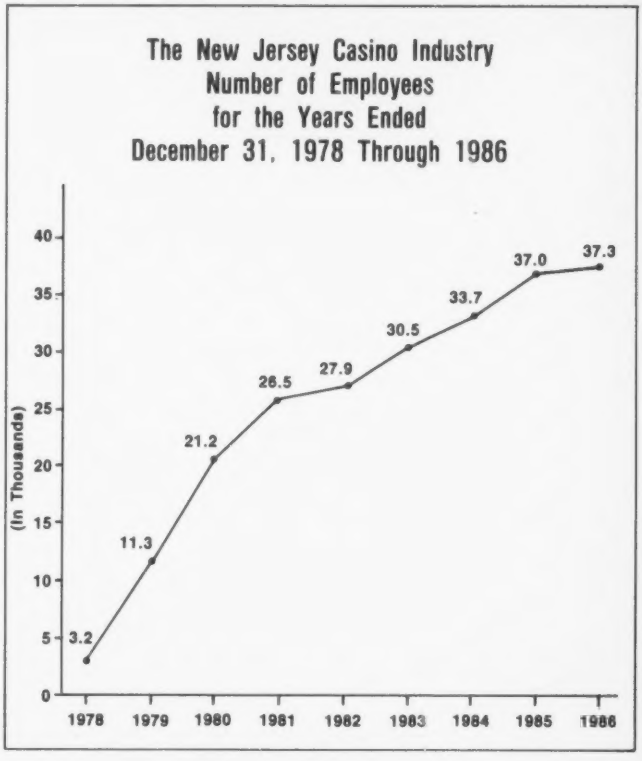
Golden Nugget		Harrah's		Resorts		Sands		Tropicana		Trump		Industry Totals	
1986	1985	**1986**	1985	**1986**	1985	**1986**	1985	**1986**	1985	**1986**	1985	**1986**	1985
57	57	**80**	60	**81**	81	**62**	62	**78**	76	**84**	84	**784**	751
20	20	**24**	22	**22**	22	**18**	18	**20**	26	**24**	24	**228**	230
10	10	**12**	12	**11**	11	**12**	12	**11**	11	**12**	11	**120**	117
4	4	**3**	3	**4**	4	**3**	2	**4**	3	**11**	4	**39**	37
2	2	**2**	3	**3**	3	**3**	2	**2**	3	**2**	3	**27**	30
93	93	**121**	100	**121**	121	**98**	96	**115**	119	**126**	126	**1,198**	1,165
62	62	**128**	107	**84**	88	**78**	75	**65**	73	**83**	83	**1,088**	918
570	655	**913**	832	**965**	979	**766**	763	**705**	784	**925**	942	**9,284**	9,326
207	179	**268**	271	**210**	224	**151**	147	**191**	231	**159**	184	**2,002**	2,080
391	304	**408**	372	**405**	369	**436**	465	**318**	364	**488**	448	**4,151**	3,859
1,230	1,200	**1,717**	1,582	**1,664**	1,660	**1,431**	1,450	**1,279**	1,452	**1,655**	1,657	**16,525**	16,183
43,162	40,814	**60,444**	53,556	**59,857**	59,857	**49,250**	49,459	**50,850**	50,850	**60,000**	60,000	**593,617**	577,732
518	519	**760**	750	**688**	686	**500**	500	**513**	515	**613**	612	**6,351**	6,342
23,536	23,961	**32,813**	25,100	**48,953**	48,953	**24,930**	24,930	**25,641**	26,152	**27,937**	30,716	**344,874**	320,014
2,023	1,613	**2,743**	2,599	**2,547**	2,340	**765**	765	**2,216**	2,506	**1,190**	1,051	**19,409**	18,404
540	540	**850**	849	**1,600**	1,600	**850**	850	**1,720**	1,720	**718**	718	**9,620**	9,449
10	10	**8**	10	**12**	12	**10**	9	**7**	9	**8**	7	**102**	98
$220.9	$186.3	**$265.3**	$247.3	**$176.5**	$173.1	**$216.8**	$191.2	**$200.0**	$102.7[a]	**$244.9**	$197.1	**$2,559.9**	$2,287.4
3,660	2,861	**3,844**	3,827	**3,814**	3,927	**2,772**	2,762	**3,235**	3,495	**3,883**	3,799	**37,262**	36,585

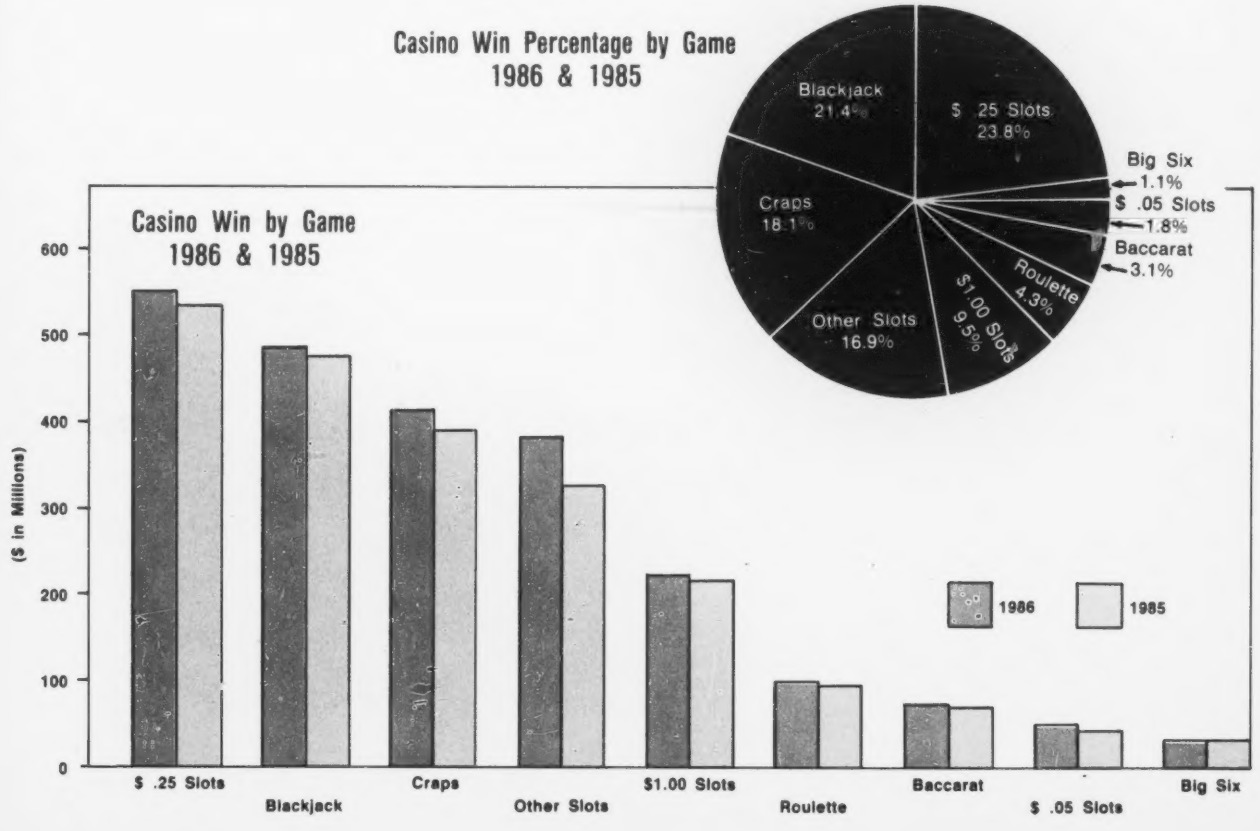
The New Jersey Casino Industry
Gross Revenue and Related Tax
for the years Ended December 31, 1986 and 1985
($ in Thousands)

Casino Hotel	Casino Win	Daily Average Casino Win	Adjustment for Uncollectibles	Gross Revenue	Tax
Atlantis					
1986	**$102,993**	**$282**	**$2,145**	**$100,848**	**$ 8,068**
1985	138,498	379	985	137,513	11,001
Bally					
1986	**$228,409**	**$626**	**$ 619**	**$227,790**	**$18,223**
1985	224,266	614	585	223,681	17,895
Caesars					
1986	**$259,632**	**$711**	**$2,649**	**$256,983**	**$20,559**
1985	247,091	679	3,831	243,260	19,461
Castle					
1986	**$226,478**	**$620**	**$1,618**	**$224,860**	**$17,989**
1985*	116,351	588	730	115,621	9,250
Claridge					
1986	**$119,863**	**$328**	**$ 807**	**$119,056**	**$ 9,524**
1985	119,665	328	857	118,808	9,505
Golden Nugget					
1986	**$249,940**	**$685**	**$1,253**	**$248,687**	**$19,895**
1985	240,507	659	2,971	237,536	19,003
Harrah's					
1986	**$236,511**	**$648**	**$1,302**	**$235,209**	**$18,817**
1985	215,481	590	1,596	213,885	17,111
Resorts					
1986	**$234,996**	**$644**	**$2,142**	**$232,854**	**$18,628**
1985	243,304	667	1,739	241,565	19,325
Sands					
1986	**$189,935**	**$520**	**$1,178**	**$188,757**	**$15,101**
1985	179,012	490	2,812	176,200	14,096
Tropicana					
1986	**$214,422**	**$587**	**$1,414**	**$213,008**	**$17,041**
1985	211,058	578	3,199	207,859	16,629
Trump					
1986	**$218,027**	**$597**	**$2,841**	**$215,186**	**$17,215**
1985	203,418	557	4,117	199,301	15,944

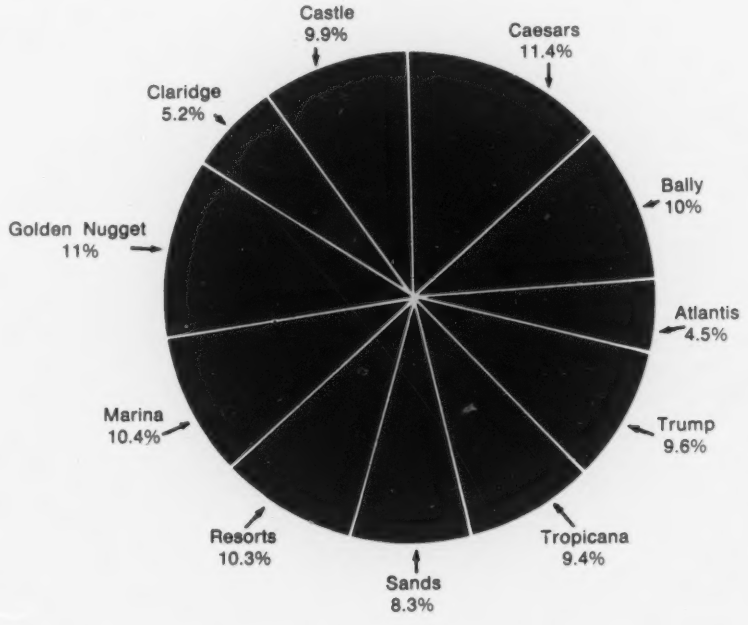
*Castle officially opened on June 19, 1985.


The New Jersey Casino Industry
Salaries and Wages
foe the Years Ended
December 31, 1978 Through 1985
($ In Millions)
0
100
200
300
400
500
600
700
20.9
81.0
209.9
368.2
438.6
479.6
579.1
629.6
658.6
1978
1979
1980
1981
1982
1983
1984
1985
1986


The New Jersey Casino Industry
Number of Employees
for the Years Ended
December 31, 1978 Through 1986
(In Thousands)
0
5
10
15
20
25
30
35
40
3.2
11.3
21.2
26.5
27.9
30.5
33.7
37.0
37.3
1978
1979
1980
1981
1982
1983
1984
1985
1986

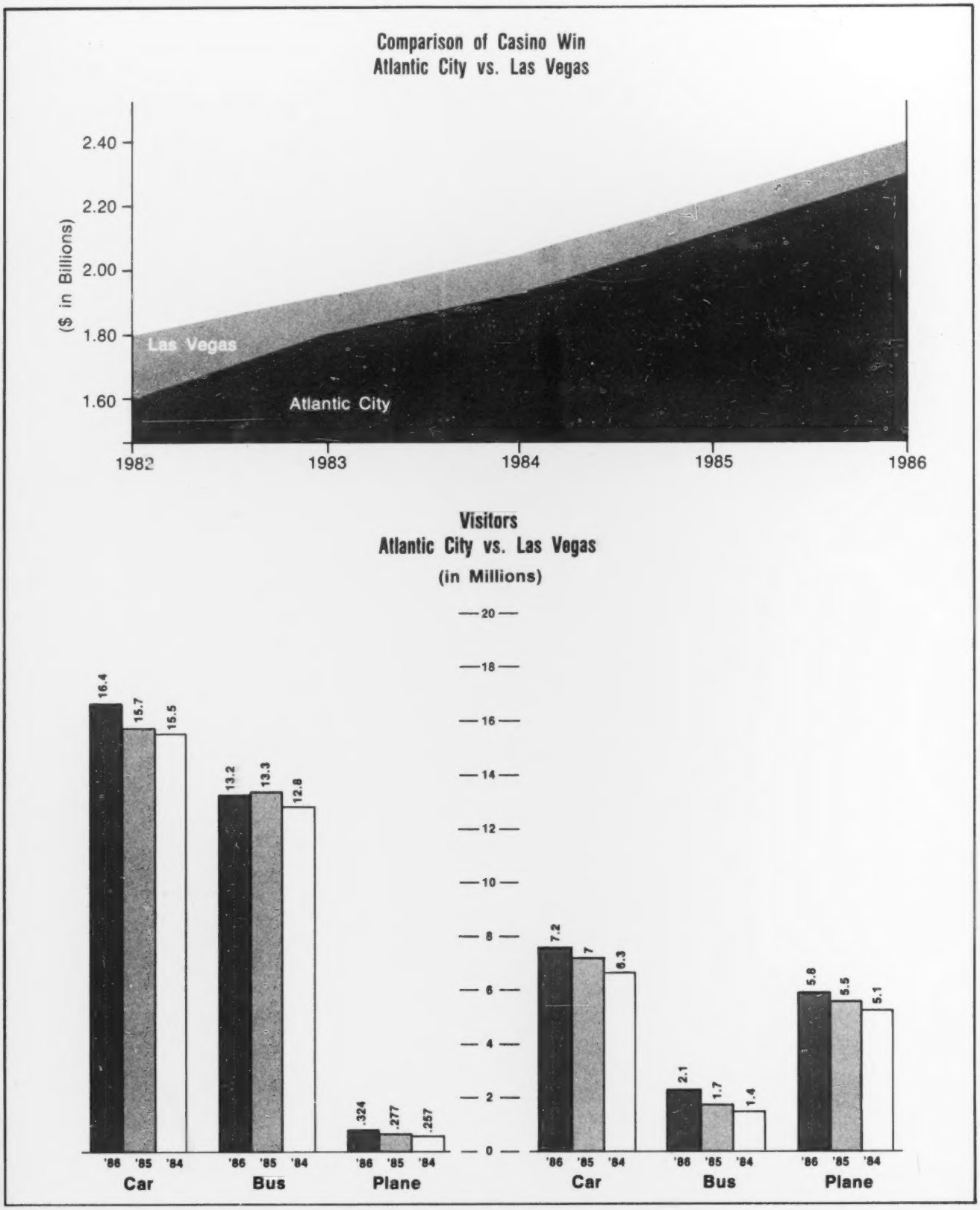

Casino Win Percentage by Game
1986 & 1985
Blackjack
21.4%
$ .25 Slots
23.8%
Big Six
1.1%
$ .05 Slots
1.8%
Baccarat
3.1%
Roulette
4.3%
$1.00 Slots
9.5%
Other Slots
16.9%
Craps
18.1%
Casino Win by Game
1986 & 1985
($ in Millions)
0
100
200
300
400
500
600
1986
1985
$ .25 Slots
Blackjack
Craps
Other Slots
$1.00 Slots
Roulette
Baccarat
$ .05 Slots
Big Six

The New Jersey Casino Industry
Market Share of Casino Win
1986



Industry Comparisons

	Atlantic City		Las Vegas		Over (Under) Atlantic City	
	Average Units	Average Win Per Unit	Average Units	Average Win Per Unit	Average Units	Average Win Per Unit
1986:						
Slot Machines	16,353	$ 72,486	56,099	$ 22,890	39,746	($ 49,596)
Table Games	1,182	$927,110	2,792	$388,454	1,160	($538,656)
1985:						
Slot Machines	15,229	$ 71,426	55,247	$ 20,974	40,018	($ 50,452)
Table Games	1,114	$943,366	2,883	$371,676	1,769	($571,690)
1984:						
Slot Machines	13,288	$ 73,758	51,286	$ 20,065	38,998	($ 53,693)
Table Games	977	$994,542	2,784	$359,166	1,807	($635,376)


Comparison of Casino Win
Atlantic City vs. Las Vegas
($ in Billions)
2.40
2.20
2.00
1.80
1.60
Las Vegas
Atlantic City
1982
1983
1984
1985
1986
Visitors
Atlantic City vs. Las Vegas
(in Millions)
20
18
16
14
12
10
8
6
4
2
0
16.4
15.7
15.5
13.2
13.3
12.8
.324
.277
.257
7.2
7
6.3
2.1
1.7
1.4
5.8
5.5
5.1
'86 '85 '84
Car
Bus
Plane

LEGISLATIVE SERVICES COMMISSION
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New Jersey State Legislature
OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
210 CARNEGIE CENTER
PRINCETON, NEW JERSEY 08540
Mailing Address:
CN 067
Trenton, NJ 08625

ALBERT PORRONI
Executive Director
(609) 292-4625

JAMES J. DOLAN
State Auditor
(609) 292-3700

The Honorable Thomas H. Kean Governor of New Jersey

The Honorable John F. Russo
President of the Senate

The Honorable Chuck Hardwick
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Gentlemen:

We have examined the balance sheet of the **Casino Control Fund** of the State of New Jersey as of June 30, 1986 and 1985, and the related statements of revenues, expenditures, and changes in fund balances; and of revenues, expenditures, and changes in fund balances, budget and actual—budgetary basis for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the **Casino Control Fund** as of June 30, 1986 and 1985, and the results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The examination was performed and this report is submitted pursuant to the State Auditor's audit responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution, and N.J.S.A. 52:24-4.

Respectfully submitted,

James J. Dolan

James J. Dolan
State Auditor

State of New Jersey
Casino Control Fund
Balance Sheet
June 30, 1986 and 1985

	Exhibit 1 (in $000) 1986	1985
Assets:		
Accounts Receivable (Note 3)	$6,375.4	$ 8,897.2
Less: Allowance for Doubtful Accounts	775.7	858.7
Net Accounts Receivable	5,599.7	8,038.5
Due from General Fund (Note 2)	73.1	5,772.2
Total Assets	$5,672.8	$13,810.7
Liabilities and Fund Balance:		
Liabilities:		
Accounts Payable (Note 4)	$5,646.5	$ 4,483.7
Total Liabilities	5,646.5	4,483.7
Fund Balance: (Note 1)		
Reserved:		
Reserved for Encumbrances		
Current Year	1,792.6	1,152.5
Prior Year	285.6	443.5
Unreserved:		
Undesignated	(2,051.9)	7,731.0
Total Fund Balance (Note 5)	26.3	9,327.0
Total Liabilities and Fund Balance	$5,672.8	$13,810.7

( ) Denotes minus amount

SEE NOTES TO FINANCIAL STATEMENTS

State of New Jersey
Casino Control Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Years Ended June 30, 1986 and 1985

	Exhibit II (in $000) 1986	1985
Revenues:		
Casinos		
Licenses	$29,436.2	$31,926.9
Slot Machines	8,098.4	7,239.8
Alcoholic Beverage	1,017.4	1,136.7
Work Permits	201.3	2,349.2
Deficit Assessments	—	(46.3)
	38,753.3	42,606.3
Credits For Prior Year Surplus	(9,327.0)	(1,247.2)
Total From Casinos	29,426.3	41,359.1
Other Sources		
Licenses		
Casino Employees	4,191.2	5,272.1
Casino Service Industry	631.7	1,057.4
Fines and Penalties	386.7	726.8
Other Revenue	109.5	25.0
Total From Other Sources	5,319.1	7,081.3
Total Revenue	34,745.4	48,440.4
Other Increases:		
Transfers from General Fund (Note 7)	321.7	846.4
Total Other Increases	321.7	846.4
Total Revenues/Other Increases	35,067.1	49,286.8
Expenditures:		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	25,904.7	24,272.2
Government Direction, Management and Control (Casino Control Commission)	18,463.1	16,934.8
Total Expenditures	44,367.8	41,207.0
Net Increase (Decrease) in Fund Balance For The Year	(9,300.7)	8,079.8
Fund Balance—Beginning	9,327.0	1,247.2
Fund Balance—Ending	$ 26.3	$ 9,327.0

( ) Denotes minus amount

SEE NOTES TO FINANCIAL STATEMENTS

State of New Jersey
Casino Control Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—Budgetary Basis
for the Fiscal Year Ended June 30, 1986

Exhibit III-A
(in $000)

	Actual	Adjustment To Budgetary Basis	Actual on Budgetary Basis	Budget	Variance—Favorable (Unfavorable)
Revenues:					
Casinos					
Licenses					
Casino	$ 29,436.2	$ —	$ 29,436.2	$31,443.9	$ (2,007.7)
Slot Machines	8,098.4	—	8,098.4	6,947.5	1,150.9
Alcoholic Beverage	1,017.4	—	1,017.4	800.8	216.6
Work Permits	201.3	—	201.3	126.0	75.3
Deficit Assessments	—	—	—	—	—
	38,753.3	—	38,753.3	39,318.2	(564.9)
Credits for Prior Year Surplus	(9,327.0)	—	(9,327.0)	—	(9,327.0)
Total From Casinos	29,426.3	—	29,426.3	39,318.2	(9,891.9)
Other Sources					
Licenses					
Casino Employees	4,191.2	—	4,191.2	6,629.3	(2,438.1)
Casino Service Industry	631.7	—	631.7	1,941.3	(1,309.6)
Fines and Penalties	386.7	—	386.7	—	386.7
Other Revenue	109.5	—	109.5	40.2	69.3
Total From Other Sources	5,319.1	—	5,319.1	8,610.8	(3,291.7)
Total Revenues	34,745.4	—	34,745.4	47,929.0	(13,183.6)
Other Increases					
Transfers from General Fund	321.7	—	321.7	—	321.7
Total Other Increases	321.7	—	321.7	—	321.7
Total Revenues/Other Increases	35,067.1	—	35,067.1	47,929.0	(12,861.9)
Expenditures:					
Public Safety and Criminal Justice (Division of Gaming Enforcement)	25,904.7	485.1	26,389.8	28,555.0	2,165.2
Government Direction, Management and Control (Casino Control Commission)	18,463.1	373.7	18,836.8	19,374.0	537.2
Total Expenditures	44,367.8	858.8	45,226.6	47,929.0	2,702.4
Net Increase (Decrease) in Fund Balance for the Year	$ (9,300.7)	$(858.8)	$(10,159.5)	$ -0-	$(10,159.5)

( ) Denotes minus amount

SEE NOTES TO FINANCIAL STATEMENTS

State of New Jersey
Casino Control Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—Budgetary Basis
for the Fiscal Year Ended June 30, 1985

Exhibit III-B
(in $000)

	Actual	Adjustment To Budgetary Basis	Actual on Budgetary Basis	Budget	Variance—Favorable (Unfavorable)
Revenues:					
Casinos					
Licenses					
Casino	$ 31,926.9	$ —	$ 31,926.9	$28,973.5	$ 2,953.4
Slot Machines	7,239.8	—	7,239.8	6,113.7	1,126.1
Alcoholic Beverage	1,136.7	—	1,136.7	753.1	383.6
Work Permits	2,349.2	—	2,349.2	1,639.2	710.0
Deficit Assessments	(46.3)	—	(46.3)	—	(46.3)
	42,606.3	—	42,606.3	37,479.5	5,126.8
Credits for Prior Year Surplus	(1,247.2)	—	(1,247.2)	—	(1,247.2)
Total From Casinos	41,359.1	—	41,359.1	37,479.5	3,879.6
Other Sources					
Licenses					
Casino Employees	5,272.1	—	5,272.1	5,449.1	(177.0)
Casino Service Industry	1,057.4	—	1,057.4	1,284.8	(227.4)
Fines and Penalties	726.8	—	726.8	—	726.8
Other Revenue	25.0	—	25.0	88.6	(63.6)
Total From Other Sources	7,081.3	—	7,081.3	6,822.5	258.8
Total Revenues	48,440.4	—	48,440.4	44,302.0	4,138.4
Other Increases					
Transfers from General Fund	846.4	—	846.4	—	846.4
Total Other Increases	846.4	—	846.4	—	846.4
Total Revenues/Other Increases	49,286.8	—	49,286.8	44,302.0	4,984.8
Expenditures:					
Public Safety and Criminal Justice (Division of Gaming Enforcement)	24,272.2	535.2	24,807.4	27,154.0	2,346.6
Government Direction, Management and Control (Casino Control Commission)	16,934.8	182.6	17,117.4	17,148.0	30.6
Total Expenditures	41,207.0	717.8	41,924.8	44,302.0	2,377.2
Net Increase (Decrease) in Fund Balance for the Year	$ 8,079.8	$(717.8)	$ 7,362.0	$ -0-	$ 7,362.0

( ) Denotes minus amount

SEE NOTES TO FINANCIAL STATEMENTS

STATE OF NEW JERSEY
CASINO CONTROL FUND
NOTES TO FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies

A. Fund Accounting

The Governmental Accounting Standards Board, in its Statement 1—entitled *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, continued in force the National Council on Governmental Accounting's (NCGA) Statement 1. NCGA Statement 1 defines a fund as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. These statements reflect financial reporting practices in accordance with that definition.

Special Revenue Fund

The Casino Control Fund is classified as a Special Revenue Fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

The Casino Control Fund (N.J.S.A. 52:12-143) accounts for fees from the issuance and renewal of casino licenses, work permit fees, and other license fees. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The Casino Control Fund is accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues susceptible to accrual would include casino license fees.

Appropriations are authorized by an act of the Legislature for expenditure during the fiscal year and for a period of one month thereafter. Expenditures are recorded on an accrual basis when the related liability is incurred. Modifications to the accrual basis of accounting include:

a) Disbursements for prepaid expenses, inventory items, and fixed assets are recorded as expenditures when incurred.
b) Accumulated unpaid vacation and sick pay are not accrued.

Encumbrances represented by purchase orders and contracts are recorded and reported as reservations of fund balance since they do not constitute expenditures or liabilities.

C. Revenue and Expenditure Budgets

The Casino Control Fund, as detailed in the following table, operates under a budgetary control system comprised of:

a) The Annual Appropriations Acts approved June 28, 1985 for Fiscal Year 1986, June 29, 1984 for Fiscal Year 1985, and various supplemental appropriation acts approved during the fiscal year.
b) Reappropriations (authorized by the Annual Appropriations Act) of prior year funds which are available for expenditure in the current year.
c) Appropriated Revenues (authorized by the Annual Appropriations Act) which established certain revenues as appropriations.

The above items provided the following amounts for the Fiscal Year 1986 and 1985 budgets (in $000).

	Revenue and Other Increases	
	1986	1985
Annual Appropriations Act	$47,929.0	$44,302.0
Totals	$47,929.0	$44,302.0

	Expenditures and Other Decreases	
	1986	1985
Annual Appropriations Act	$47,929.0	$44,302.0
Totals	$47,929.0	$44,302.0

Budgetary control is maintained at the program unit level.

The accompanying statements of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual-Budgetary Basis present comparisons of the legally adopted budget with actual data on a budgetary basis.

The State's budgetary basis of accounting differs from that utilized to present financial statements in conformance with generally accepted accounting principles (GAAP). The main difference between the budgetary basis and the GAAP basis

is that under the budgetary basis encumbrances are recognized as expenditures, and the budgetary basis reflects transactions only for the current fiscal year. There were no expenditures in excess of appropriations in the Casino Control Fund.

D. Fund Balances

The fund balances of the Casino Control Fund consist of:

a) *Reserved for encumbrances*—used to segragate a portion of fund balance to provide for expenditure upon vendor performance of purchase agreements.

b) *Unreserved-Undesignated*—used to represent that portion of fund balance resources available for appropriation.

E. Other

Other significant accounting policies are described in Notes 2 to 7.

NOTE 2—**Cash/Due From General Fund**

Cash transactions of the Casino Control Fund are made through and by the General Fund cash accounts. The balance of cash for this fund held in the General Fund after receipt and disbursement transactions is accounted for and reflected in the respective Due From or Due To accounts on the Balance Sheet.

NOTE 3—**Accounts Receivable**

Represent amounts which were collected within the one-month period subsequent to June 30, and outstanding billings applicable to June 30, 1986 and 1985. Approximately 77% and 85% of the outstanding billings were satisfied within a three-month period subsequent to June 30, 1986 and 1985, respectively.

NOTE 4—**Accounts Payable**

Represent amounts due for goods and services that were received by the State prior to fiscal year end.

NOTE 5—**Fund Balance**

The positive fund balance as of June 30, 1986 and 1985 resulted from revenues exceeding expenditures. Pursuant to N.J.A.C. 19:41-9.1(e) the balance at June 30, 1985 was credited to casino licensees in proportion to the relative amount of total fees incurred or paid by each casino licensee with respect to the fiscal year ended June 30, 1985. The balance at June 30, 1986 will be distributed to licensed casino facilities during Fiscal Year 1987.

NOTE 6—**Employee Benefit Costs**

Fringe benefit costs which include pension, health benefits, payroll taxes, and amounts for unused sick leave are originally paid by the General Fund and are charged to the Casino Control Fund using a composite fringe benefit rate.

NOTE 7—**Interest**

The General Fund charges interest to the Casino Control Fund when disbursements exceed receipts collected and credits interest to the Casino Control Fund when receipts collected exceed disbursements made. The interest rate used during Fiscal Year 1986 and Fiscal Year 1985 was equal to the effective rate of return on investments in the General Fund and varied from 6.91% to 8.11% in Fiscal Year 1986 and from 8.62% to 10.94% in Fiscal Year 1985. The net effect of these transactions is reflected in the Transfers from General Fund account on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

NOTE 8—**Contingent Liability**

The Casino Control Fund is involved in a number of legal actions wherein there is potential for unanticipated expenditure. The exact amount involved in these legal proceedings is not fully determinable. N.J.A.C. 19:41-9.1 allows the Casino Control Fund to apportion any uncollected cost among the licensed casino facilities.

AUDITORS REPORT ON SUPPLEMENTAL DATA

We have reported separately herein on the financial statements of the Casino Control Fund for the Fiscal Years ended June 30, 1986 and 1985. Our examination was made for the purpose of forming an opinion on these basic financial statements taken as a whole. The Expenditure Detail Schedule that follows is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the same auditing procedures applied in the examination of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

State of New Jersey
Casino Control Fund
Expenditure Detail
Fiscal Years Ended June 30, 1986 and 1985

Schedule I
(in $000)

	1986		1985	
	Public Safety and Criminal Justice	Government Direction Management and Control	Public Safety and Criminal Justice	Government Direction Management and Control
Expenditures:				
Salaries	$14,986.3	$11,984.0	$13,714.9	$10,939.4
Payroll Taxes and Employee Benefits	3,961.6	2,890.0	3,566.6	2,515.7
Printing and Office Supplies	277.7	271.3	287.5	267.3
Vehicular Supplies	403.3	.1	403.8	.1
Travel	46.1	39.8	45.1	69.5
Telephone	627.9	268.0	630.2	257.6
Data Processing	800.5	657.9	1,224.4	860.2
Professional Services	458.6	136.2	431.5	144.4
Other Services Other than Personal	858.1	533.2	682.3	463.1
Rent—Facilities	1,412.4	952.7	1,428.8	734.5
Rent—Automobiles and Other	144.3	80.2	166.8	148.6
Indirect Costs	943.6	428.0	913.9	159.5
Office Equipment	238.9	91.8	250.9	177.3
Vehicular Equipment	382.7	—	179.6	—
Other Equipment	362.7	129.9	345.9	197.6
Total Expenditures	$25,904.7	$18,463.1	$24,272.2	$16,934.8

Casino Control Commission

Table of Organization

COMMISSION

Public Information and Legislative Liaison

Robert Genatt
Legal Division

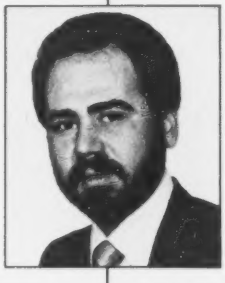
- Legislation & Regulations
- Legal Advisory
- License Advisory
- Hearings & Litigation
- Special Projects

William H. Delaney
Division of Financial Evaluation & Control

- Financial Evaluation
- Accounting
- Audit
- Inspection
- Casino Accounting & Operations

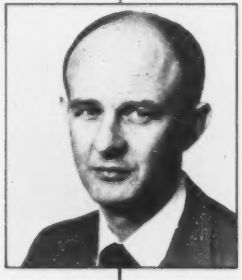
Jack Wood
Affirmative Action & Planning Division

- Policy Planning & Development
- Casino
- Construction & Industry



Christopher D. Storcella
Licensing Division

- Employee Licensing
- Document Control
- Enterprise Licensing



Theron Schmidt
Administrative Division

- Personnel
- Budget & Fiscal
- Admin. Services
- Systems Analysis & Design